

## Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 CIAE-00 DODE-00 PM-03 H-02 INR-07 L-03

NSAE-00 NSC-05 PA-01 PRS-01 SP-02 SS-15 USIA-06 /058 W  
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P R 031707Z JUL 75

FM AMEMBASSY BUDAPEST

TO SECSTATE WASHDC PRIORITY 3621

INFO AMEMBASSY BELGRADE

AMEMBASSY BUCHAREST

AMEMBASSY MOSCOW

AMEMBASSY PRAGUE

AMEMBASSY WARSAW

RUFHNAOUSMISSION NATO 643

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E.O. 11652: NA

TAGS: PINT, HU

SUBJECT: CENTRAL COMMITTEE MAKES PERSONNEL CHANGES

AND REVIEWS ECONOMY

1. SUMMARY. HSWP CENTRAL COMMITTEE (CC), ALONG WITH TOP PARTY AND GOVERNMENT OFFICIALS, MET JULY 2 AND "ELECTED" PRESIDENT PAL LOSONCZI AND VICE-PREMIER ISTVAN HUSZAR TO POLITBURO AND RELIEVED CC SECTION CHIEF PAL ROMANY OF HIS POST TO ASSUME MINISTERIAL POSITION. CC ALSO DECIDED ON COMPOSITION NEW GOVERNMENT TO BE ANNOUNCED AT JULY 4 SESSION OF PARLIAMENT. WE ASSUME CC ALSO CARRIED OUT EXTENSIVE REVIEW OF COUNTRY'S ECONOMIC SITUATION. ALTHOUGH COMMUNIQUE COMPLETELY BLAND IS LIKELY THAT CC PRESENTED MORE REALISTIC PICTURE OF COUNTRY'S ECONOMIC DIFFICULTIES, INCLUDING BAD NEWS ABOUT TRADE IMBALANCE WITH WEST, FAILURE TO MODERNIZE PRODUCTION SYSTEM ADEQUATELY, OVER-INVESTMENT AND STOCKPILING BY STATE ENTERPRISES. CC RE-AFFIRMED XI PARTY CONGRESS LINE THAT GOALS CAN BE MET ONLY THROUGH GREATER RELIANCE ON DOMESTIC RESOURCES AND INCREASED EFFICIENCY IN PRODUCTION.

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END SUMMARY.

2. CC MET JULY 2 IN UNUSUALLY EXPANDED SESSION WHICH, INCLUDED CENTRAL CONTROL COMMITTEE, CC DEPARTMENT HEADS, COUNTY AND BUDAPEST PARTY FIRST SECRETARIES, TRADE UNION LEADERS, NATIONAL BANK PRESIDENT, COUNCIL OF MINISTERS PRESIDENT AND NEWS MEDIA LEADERS. THEY LISTENED TO SPEECHES BY POLITGURO MEMBERS BELA BISZKU AND KAROLY NEMETH. CC DISCUSSED PERSONNEL MATTERS AND ANNOUNCED COOPTION OF PRESIDENT PAL LOSONCZI AND VICE-PREMIER ISTVAN HUSZAR TO POLITBURO. IN ADDITION, CC DEPARTMENT HEAD PAL ROMANY WAS RELIEVED OF HIS JOB "IN ORDER TO ASSUME IMPORTANT POST," PRESUMABLY IN CABINET. SANDOR BORBELY WAS NAMED CC DEPARTMENT CHIEF REPLACING HIM. COMMUNIQUE STATED THAT PEOPLE'S PATRIOTIC FRONT "GAVE REPORT ON PERSONNEL QUESTIONS CONCERNING NEW PARLIAMENT". ANNOUNCEMENT OF NEW GOVERNMENT EXPECTED AT PARLIAMENTARY SESSION JULY 4.

3. COMMUNIQUE DELT PRIMARILY WITH PRESENT STATE OF ECONOMY AND PROBLEMS TO BE OVERCOME IF LIVING STANDARDS ARE TO INCREASE AT PLANNED RATE. ECONOMY FACES SERIOUS DIFFICULTIES AS RESULT OF UNFAVORABLE TRADE BALANCE WITH CAPITALIST COUNTRIES, DUE IN LARGE PART TO WESTERN TRADE "DISCRIMINATION" AGAINST HUNGARIAN EXPORTS. DOMESTIC ENTERPRISES WERE BLAMED FOR FAILURE TO MODERNIZE PRODUCTION SYSTEM, AND FOR HAVING ENGAGED IN EXCESS STOCKPILING AND UNECONOMICAL INVESTMENTS. CONSUMPTION IS WELL ABOVE PLANNED LEVELS. HUNGARIANS WARNED THAT IN FUTURE THEY MUST RELY MORE ON OWN RESOURCES AND NOT TO EXPECT INCREASES IN INCOME OR LIVING STANDARD UNLESS THERE IS GREATER EFFICIENCY IN PRODUCTION AND REAL INCREASE IN NATIONAL INCOME.

4. NEVERTHELESS, CC CLAIMED THAT EARLIER PRODUCTION AND INCOME GOALS CAN BE REACHED IF EVERYONE WORKS HARDER AND MORE EFFICIENTLY. COMMUNIQUE FUZZED ISSUE OF FUTURE PRICE INCREASES AND LIKELIHOOD POPULACE WILL BE ASKED TO TIGHTEN BELTS.

5. ASIDE FROM DECIDING ON NEW GOVERNMENT, CC SESSION DELT WITH SERIOUS ECONOMIC DIFFICULTIES FACING COUNTRY. AS IMPORTER OF RAW MATERIALS AND ENERGY, SUBSTANTIAL PRICE LIMITED OFFICIAL USE

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INCREASES FROM WEST AND EAST HAVE PUT SQUEEZE ON HUNGARY'S DIMINISHING FOREIGN EXCHANGE RESERVES. THESE PRICE INCREASES HAVE COME AT SAME TIME AS SUBSTANTIAL REDUCTION IN ACCESS OF HUNGARIAN EXPORTS TO WESTERN MARKETS. LOCAL ECONOMIC OFFICIALS ARE QUITE FRANK ABOUT GOH'S GREAT NEED FOR MODERN MACHINERY FROM WEST IN ORDER TO BE COMPETITIVE IN WORLD MARKETS. BUT CC COMMUNIQUE PROVIDES NO INDICATION OF MEASURE IT PROPOSES TO TAKE TO RESOLVE ECONOMIC PROBLEMS.

PRESUMABLY, THIS WILL BE AMONG FIRST TASKS OF NEW GOVERNMENT.

6. SOME SUBSTANTIAL CONSUMER PRICE INCREASES HAVE BEEN ANNOUNCED THIS WEEK AND MORE ARE EXPECTED THROUGHOUT SUMMER. TASK FOR GOH IS TO KEEP INCREASES FROM UNDERMINING RELATIVELY HIGH DEGREE OF PUBLIC CONFIDENCE WHICH HAS DEVELOPED AS RESULT OF SUBSTANTIAL IMPROVEMENT IN LIVING STANDARD IN 1968 - 74 PERIOD, A PROBLEM PROBABLY DISCUSSED AT LENGTH AT CC SESSION.

7. IN ADDITION OF LOSONCZI AND HUSZAR TO POLITBURO IS NOT EXPECTED TO RESULT IN POLICY CHANGES. BOTH ARE LOYAL KADAR MEN, HUSZAR IS RESPECTED ECONOMIST WITH LONG BACKGROUND OF PUBLIC SUPPORT FOR ECONOMIC REFORM. LOSONCZI HAS WORKED HARD TO BUILD PUBLIC CONFIDENCE IN REGIME AND HIS ELEVATION TO POLITBURO MAY BE BOTH REWARD AND INCENTIVE TO HELP GOH'S PUBLIC RELATIONS THROUGH ROUGH PERIOD AHEAD. SELECTION OF BORBELY TO TAKE PLACE OF ROMANY AS CC DEPT. HEAD IS IN LINE WITH POLICY, UNDERLINED AT 11TH CONGRESS, OF PLACING MORE WORKERS IN KEY PARTY AND STATE POSITIONS.

BORBELY IS WORKER FROM CSEPEL.

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## Message Attributes

**Automatic Decaptoning:** X  
**Capture Date:** 01 JAN 1994  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** CENTRAL LEGISLATURE, PERSONNEL APPOINTMENTS  
**Control Number:** n/a  
**Copy:** SINGLE  
**Draft Date:** 03 JUL 1975  
**Decaption Date:** 01 JAN 1960  
**Decaption Note:**  
**Disposition Action:** RELEASED  
**Disposition Approved on Date:**  
**Disposition Authority:** ElyME  
**Disposition Case Number:** n/a  
**Disposition Comment:** 25 YEAR REVIEW  
**Disposition Date:** 28 MAY 2004  
**Disposition Event:**  
**Disposition History:** n/a  
**Disposition Reason:**  
**Disposition Remarks:**  
**Document Number:** 1975BUDAPE02109  
**Document Source:** CORE  
**Document Unique ID:** 00  
**Drafter:** n/a  
**Enclosure:** n/a  
**Executive Order:** N/A  
**Errors:** N/A  
**Film Number:** D750233-0060  
**From:** BUDAPEST  
**Handling Restrictions:** n/a  
**Image Path:**  
**ISecure:** 1  
**Legacy Key:** link1975/newtext/t19750784/aaaacwrc.tel  
**Line Count:** 137  
**Locator:** TEXT ON-LINE, ON MICROFILM  
**Office:** ACTION EUR  
**Original Classification:** LIMITED OFFICIAL USE  
**Original Handling Restrictions:** n/a  
**Original Previous Classification:** n/a  
**Original Previous Handling Restrictions:** n/a  
**Page Count:** 3  
**Previous Channel Indicators:** n/a  
**Previous Classification:** LIMITED OFFICIAL USE  
**Previous Handling Restrictions:** n/a  
**Reference:** n/a  
**Review Action:** RELEASED, APPROVED  
**Review Authority:** ElyME  
**Review Comment:** n/a  
**Review Content Flags:**  
**Review Date:** 09 MAY 2003  
**Review Event:**  
**Review Exemptions:** n/a  
**Review History:** RELEASED <09 MAY 2003 by CunninFX>; APPROVED <01 OCT 2003 by ElyME>  
**Review Markings:**

Margaret P. Grafeld  
Declassified/Released  
US Department of State  
EO Systematic Review  
06 JUL 2006

**Review Media Identifier:**  
**Review Referrals:** n/a  
**Review Release Date:** n/a  
**Review Release Event:** n/a  
**Review Transfer Date:**  
**Review Withdrawn Fields:** n/a  
**Secure:** OPEN  
**Status:** NATIVE  
**Subject:** CENTRAL COMMITTEE MAKES PERSONNEL CHANGES AND REVIEWS ECONOMY  
**TAGS:** PGOV, EEW, ECON, HU, (LOSONCZI, PAL), (HUSZAR, ISTVAN)  
**To:** STATE  
**Type:** TE  
**Markings:** Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 06 JUL 2006